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Ukraine

Livestock and Products Annual

Report

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Report Highlights:

Pork production in 2014 is expected to recover reflecting investments into the industry made earlier and boosted by 2012/13 bumper crop of grain. Imports of pork will remain significant, but below the record high 2012 level. Export of red meat to Russia will shrink due to tighter import regulations. The U.S. will have a chance to increase its pork exports in 2013/14 due to limited imports from Brazil and other competitors. Production of beef will stabilize after two decades of decline, but trade in beef will remain insignificant.

Data included in this report is not official USDA Data. Official USDA data is available at <http://www.fas.usda.gov/psd>

Executive Summary

After some decline in 2012, pork production is expected to increase in 2013 and 2014. This increase will take place on bigger industrial farms while production in the household sector is expected to remain stable. Investments in industrial pork production will continue. Beef prices remain high in 2013 supporting production increases. The total bovine animal number is expected to grow only in the household subsector where low cost production of beef concentrates. The number of dairy animals will contract insignificantly due to higher animal efficiency and stable demands for milk.

Pork imports are expected to decline in 2013-14 after reaching a peak in 2012 when Ukraine became the largest pork importer from Brazil. A trade ban on Brazilian pork introduced in early 2013 and partially lifted in July had limited impact on trade. Most of the import contraction took place at the expense of other major suppliers: Germany and Poland.

Exports of red meat are expected to contract in response to tighter import policy of Ukraine's major importer – the Russian Federation. Ukrainian producers experienced multiple technical and veterinary issues during the year. In August of 2013 trade almost stopped for couple of days due to extended custom clearance procedures at the border. A strict trade regime is expected to continue in 2014. Exports to EU are unlikely even after possible Free Trade Agreement empowerment in November of 2013.

Section I. Narrative

Production

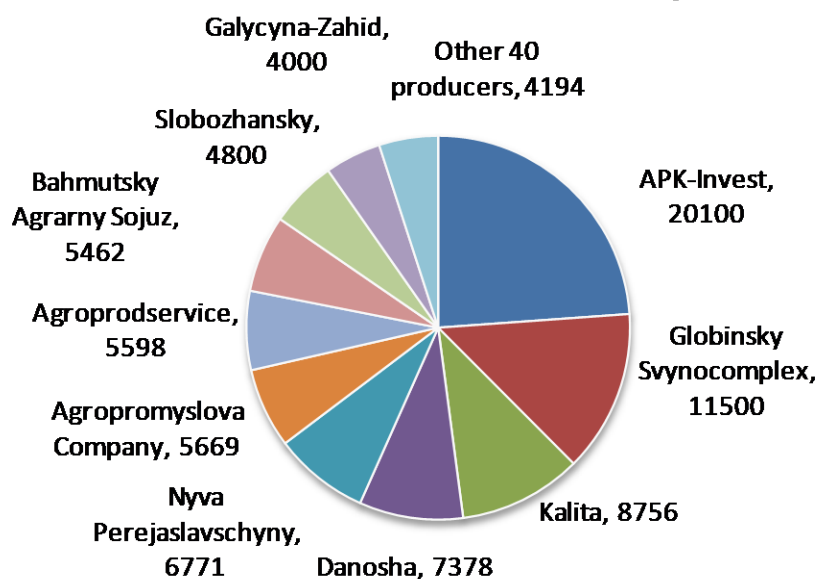
Pork

PSD numbers for 2012 were revised to reflect official statistics. Significant increase in number of piglets per sow (from 15.09 in 2011 to 18.05 in 2012) led to revision of slaughter number and pork production. This increase is attributed to increased industrial pork production and sets a record in recent history. Statistical data show a 7.2 percent increase in industrial sector swine inventory while household remains almost the same at 99.2 percent. This situation will continue in 2013/14 as the industrial sector's slow rebound is expected to continue.

Investments into pork business were increasing in 2012-13 and additional funds are expected to be invested in 2014. Money flow is boosted by shrinking margins for major grains and oilseeds due to 2012/13 bumper crop. Big industrial producers view pork production as a good additional profit source. Pork enterprises help to diversify risks and to benefit from vertical integration within big agricultural companies. Availability of significant domestic market now met by imported product and access to cheap feeds provided additional arguments to these business decisions. Export markets in the Former Soviet Union (FSU) countries also look attractive, but trade risks in 2013 looked excessive.

A number of companies announced expansion plans in 2013. Rapid production growth is expected in both existing production facilities and new farms. The new facilities are planned all over the country: the biggest landowner and egg producer UkrLandFarming (530,000 hectares of land, three percent of the Ukraine's grain crop) announced about \$1 billion investment into construction of the pig farms and meatpacking plant in southern Ukraine. Danosha LLC (controlled by EU based Axzon Group) is negotiating a \$54 million loan from the International Finance Corporation (IFC) of the World Bank for two new production facilities in Western Ukraine. KSG Agro is about to make a similar \$50 million investment into major renovation of its pig farm in Central Ukraine. The second largest land owner (422,000 hectares) and the largest oilseeds crusher Kernel Group announced about new facility construction in central Ukraine with plans to expand further in the future. One of the biggest pork producer "Slobozhansky" (ranked 9th) announced about the purchase of central Ukraine based Agrocombinat "Kalyta" (ranked 3rd). After restructuring the new company may become the second largest producer in the country (by number of sows). According to the press reports, new M&As among big players are possible. Additional analysis of pork production expansion can be found in [Long Term Perspective of Poultry and Livestock Production](#) GAIN Report published in May 2013.

Top 50 Ukrianian swine producers, by number of sows as of Jan 1st, 2013



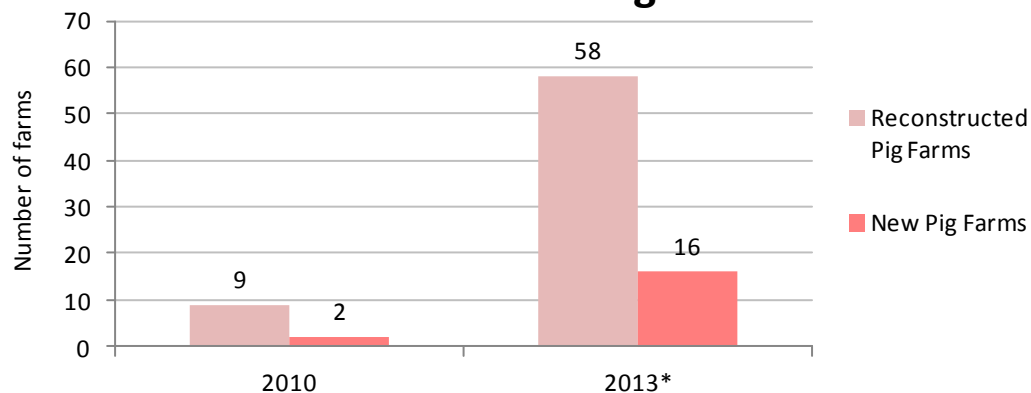
Source: Association of Pig Breeders of Ukraine

Major swine producers continued to build inventory during 2012-13. APK-Invest remained the largest company in the industry. It is planning to expand swine slaughter from 339,000 head in 2012 to 440,000 head in 2013. A lot of big producers are vertically integrated companies involved in production of their own crops, feeds, animal slaughter and meat product manufacturing. Many of them have their own distribution networks and deliver products to major retail chains.

No new cases of African Swine Fever were officially registered in Ukraine in industrial farms or households. One case registered in 2012 had no major impact on domestic production or trade. At the same time Ukraine maintained multiple restrictions for trade with neighboring Russian Federation and Belarus.

Massive investments into new farms and farm renovation are supported by the data published by the Ministry of Agrarian Policy and Food of Ukraine where new swine projects are registered.

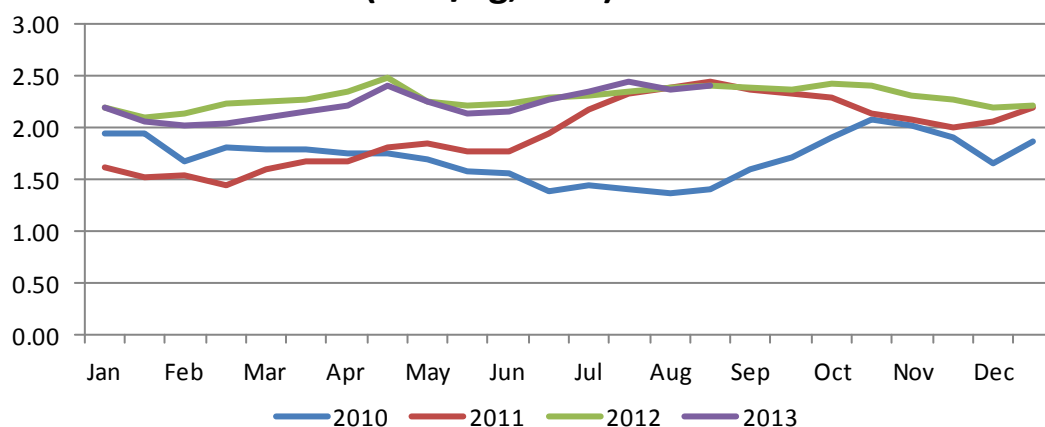
Investments into Pig Farms



Source: Ministry of Agricultural Policy and food of Ukraine

Pork prices in 2013 served as another booster for swine number increase. Price remained high through 2012-13 despite a significant increase in imports in 2012. Some decrease in poultry prices in 2013 also had little or no impact on farm gate price. It must be noted that domestically produced pork is sold fresh through numerous retail channels while imported pork goes predominately for further processing into sausages and other meat products.

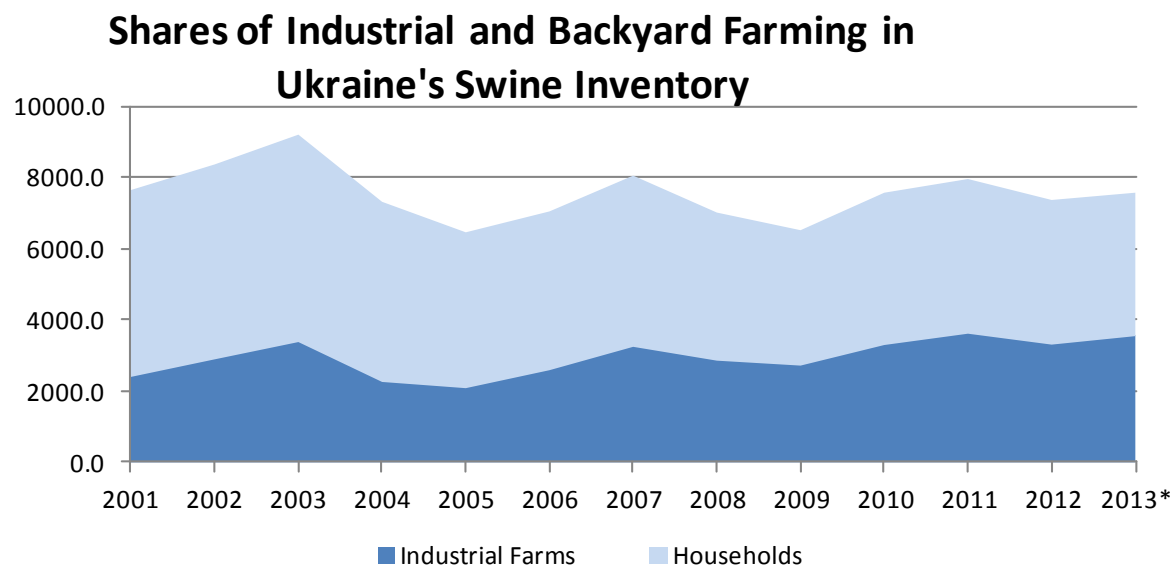
Domestic Pork Farm Gate Price* (USD/kg, LWE)



Source: Association of Pig Breeders of Ukraine, FAS Kiev calculations

* *Second Grade Live Pigs*

Swine population in Ukraine will continue to be concentrated in both backyard and industrial farms. As of 2013 around 53 percent of swine inventories are concentrated in the household sector with remaining 47 percent in the industrial farms. The trend for bigger industrial farming will accelerate in the future due to recent massive investments into the swine industry. Although backyard production in many cases is subsistence farming, a lot of pork from households is being sold on open-air markets all over the country.

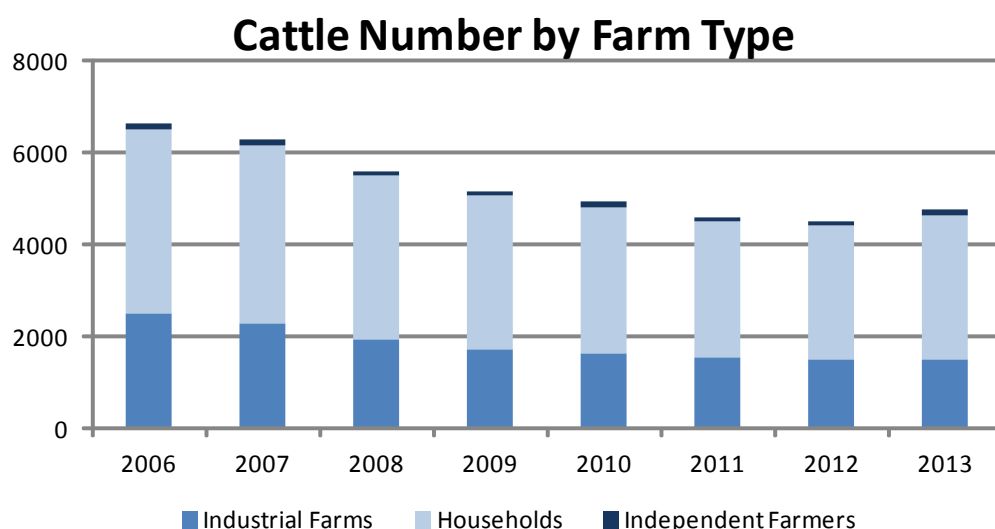


Source: State Statistics Service of Ukraine

Access to state production support programs in 2013 remains complicated due to cumbersome application procedure and frequent unavailability of budget funds. Program financing is sporadic and could not be used as a factor in a producer's business decisions. Most of the industrial farming support is based on foregone budget revenue programs (Value Added Tax exempts and Single Agricultural Tax). Despite past statements about industrial farming support in April of 2012 the Government of Ukraine (GOU) announced a massive household sector support program.

Cattle

The role of backyard production in beef supply is significantly more important as 68 percent of all animals are held in households. Share of young male animals fed for beef there is even higher. Households usually use low cost production techniques such as grazing young animals and selling them for beef at 450 kilograms of live weight.



Source: State Statistics Service of Ukraine

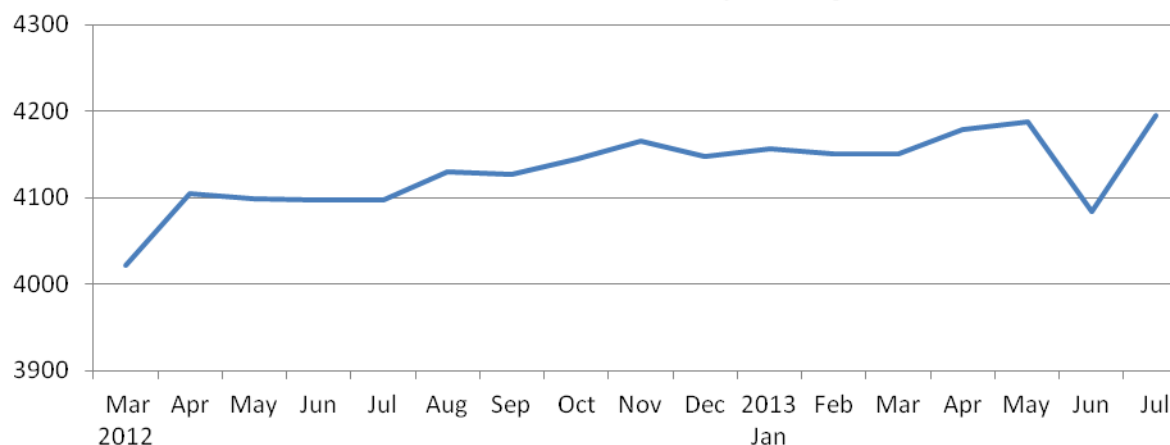
A significant share of beef production in Ukraine remains a derivative of the dairy industry and is highly dependent on the milk price and the availability of export markets for Ukrainians dairy products. As efficiency of the dairy sector grows, fewer animals are needed to produce milk and less beef is produced by the slaughterhouses.

Unable to assure profitable beef production industrial farms are decreasing the number of beef animals to cut the loss. In 2013 the number of young animals in household sector increased by 12 percent in contrast to two percent contraction in industrial farms. The number of dairy cows decreased slightly in both subsectors. Due to overall animal number increase and increased slaughter beef production forecast for 2013 was increased. The trend is expected to continue in 2014 due to increased feed availability and a significantly higher 2012/13 grain crop that led to feed price drop in July of 2013.

Part of the increase in animal number in the households can be attributed to state support programs initiated in 2012 targeting households. The program covers registered young bovine animals (registration sometimes is not the case in the households) that were born in households and not slaughtered. For 3-5 months old cattle the GOU allocated UAH 250 (\$ 31.25) per head, for 6-8 months old UAH 500 (\$ 62.50) and for 9-11 months old – UAH 750 (\$93.75). In the future the state budget support program will be targeting longevity of young animals. The sum would be equal to UAH 250 (\$ 31.25) per head every three months until the animal reaches 11 months of age. Although the support sum is relatively small, money distribution is often delayed and access to it is not straight forward the program may have had a limited impact.

Another factor positively influencing cattle production was relatively high and stable beef prices. The domestic market is influenced by the high prices in Russian Federation where majority of exports go. Despite multiple trade disturbances exports to Russia are expected to continue in 2013-14.

Beef Halves Wholesale Price, USD/MT



Source: Ministry of Agrarian Policy and Food of Ukraine, FAS Kiev Calculations

Consumption

Similar to previous years, consumption of both beef and pork will show growth, reflecting disposable income increase in 2013. The situation is expected to repeat itself in 2014. Ukraine remains in recession from the 3rd quarter of 2012 and expected to have zero or negative growth in 2013 with some positive development in 2014. Disposable incomes grew in 2012-13 mainly due to state budget programs aimed at income support.

Ukraine remains to be low-middle income country, thus demand for cheaper poultry meat would prevail. Demand for red meat would remain limited mostly by population's income level despite historical references to beef and pork consumption over poultry.

Trade

In 2013/14, Ukraine will remain an exporter and importer of the red meat products at the same time, although export of pork will decline significantly. Imports will concentrate on cheaper lower quality cuts for further processing, while exports will be going to traditional FSU markets in a form of carcasses and halves that are preferred by veterinary-sanitary authorities of the importers.

Ukraine will continue to have some trade advantages due to geographical proximity and trade agreements.

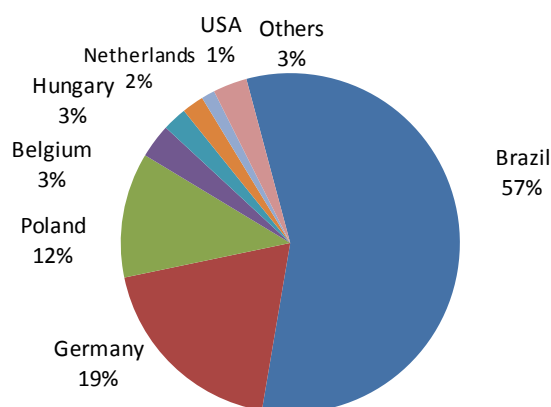
Import procedures will remain complicated, and obtaining veterinary permits will continue to be difficult for a potential importer. Customs valuation of imported products remains an obstacle for further trade growth. Due to economic slowdown and consequent budget revenue problems the pressure from the Customs and Veterinary authorities is expected to continue in 2014.

Import

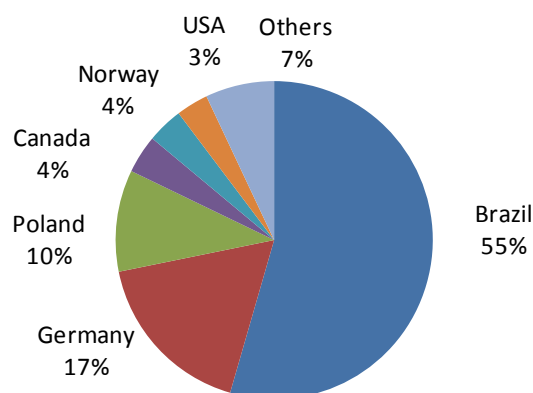
As expected, in 2012 pork imports increased significantly reaching all time high level. Imports of

281 ths MT of pork in CWE even exceeded 2008 pre-crisis level. The biggest beneficiary of the export surge was Brazil, which tremendously increased its market share proposing competitively priced product. As a result, Ukraine has become the biggest pork importer from this country in 2012 and will remain in the top five export markets in 2013.

**Pork Import in 2012 by
Country of Origin**



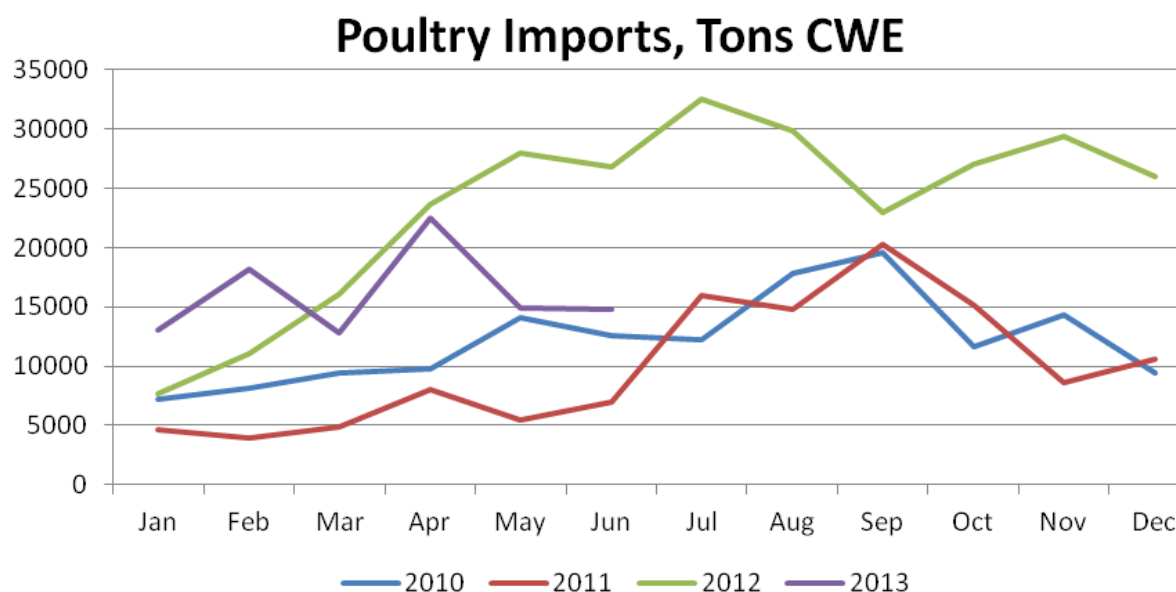
**Pork Import in 5 months of
2013**



Source: State Statistic Service of Ukraine

In response to import increase Ukrainian producers associations started import restriction lobbying campaign in winter-spring of 2013. Industry lobbyists pointed out to low quality of imported food products and to use of growth promoter that are banned in Ukraine and put domestic producers in competitive disadvantage.

Import from a single Brazilian pork producer was stopped in February of 2013 with deficiencies found in product of three more producers. Full scale import ban for pork originated from Brazil was introduced on March 20, 2013. The official reason for ban introduction was incompliance of Brazilian pork with Ukraine's microbiological indicators. The ban was partially lifted on July 16, 2013 when six facilities were approved for export after multiple veterinary inspections and negotiations of importers with the Ukrainian government.



Source: State Statistics Service of Ukraine

Contrary to expectations, the ban had only moderate impact on the market. The main reason is continued imports from other countries and even from Brazil itself. After a drop to 3,000 MT in March of 2013 imports from Brazil recovered and continued at 5,000-8,000 MT/months level during the ban months. Total pork import for the six months of 2013 decreased only by 15 percent. Most of the decreased is attributed to decreased imports from Germany and Poland. The ban had also limited impact on farm gate prices in the country. After some spike in March, prices dropped to 2012 level.

Ukraine also maintained import restriction for import of pork and animal feeds from selected regions of Russia where African Swine Fever cases were detected. In June 2013, Ukraine introduced restrictions on imports from Belarus which were reinforced in early September of 2013.

US exporters were able to benefit from the situation and increased pork exports in 2013. Previously US producers faced significant competition and were competitive in just few meat categories. Increased interest to US product is expected to continue for the rest of 2013 and into 2014 if import restrictions for Brazil remain in place.

Imports will remain to be politically sensitive and highly regulated by the GOU. Only few importers are likely to receive access to Brazilian pork, the rest will have to find cheap product elsewhere. Imports will continue to be dependent on state policies and disposable income of population.

Import of beef will remain insignificant, but it will be very attractive for suppliers of high quality beef cuts. Recent trends in HoReCa sector favor high quality U.S. beef. Previously found only in upper-scale establishments, U.S. steaks are slowly gaining popularity in mid-class restaurants. Imports of high-class beef in 2014 will remain limited, but rather profitable. Long-term perspectives are also look good.

Export

Custom Union (CU) countries (mainly Russian Federation) will remain major destinations for Ukrainian beef and pork. Export market in Russia looks attractive for Ukrainians producers due to higher prices and relatively high import barriers for other suppliers whose import is subject to quota allocation. Currently Russia's list of approved facilities contains only four [beef suppliers](#) (one less in comparison to 2012) and three [pork suppliers](#) (two less in comparison to 2012).

Nevertheless export of pork products to Russian Federation in 2013 and 2014 is expected to decrease significantly. During the 2012/13 Russia has expressed concern over Ukraine's pork supplies on the one hand and massive import of Brazilian pork to Ukraine on the other. Although no formal import restriction was introduced by Russia; import of Ukrainian pork decreased significantly since February of 2013. It is not expected to resume in the near future. The biggest and the most modern Ukrainian pork producer, APK-Invest, was delisted in September of 2012.

Beef exports in 2013/14 are expected to remain at the same level. Russia will continue to be responsible for over 70 percent of Ukrainian exports, but the number of approved suppliers will remain very limited.

Export to the EU is not expected to start in the foreseeable future. Despite an import tariff rate quota that will be envisaged in the Free Trade Agreement (FTA) Ukrainian producers lack veterinary and sanitary approval from the EU authorities. The FTA may start working in November of 2013 upon signing of the Ukraine-EU Association Agreement. Many view this agreement as the first step toward full membership which is envisaged in the future.

The Association Agreement may have far reaching trade implications impacting Ukraine's trade with CU countries. Many believe that exports to Russia and Kazakhstan will become complicated. It is difficult to consider all factors and build forecast for the remaining months of 2013 and 2014 due to high role of political component. Current analysis envisages existing trade regime and moderate export restrictions on major export markets.

Trade estimates for 2012 were revised to converge with official statistics. The trade forecast for the remaining months of 2013, as well as for 2014 remains subject to trade policy changes and possible new TBT introductions.

Section II. Statistical Tables

Ukraine Cattle PSD Table (1,000 Head*)

Animal Numbers, Cattle Ukraine	2012		2013		2014
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014
	USDA Official	New Post	USDA Official	New Post	New Post
Total Cattle Beg. Stks	4 426	4 426	4 504	4 646	4 770
Dairy Cows Beg. Stocks	2 582	2 582	2 561	2 554	2 540
Beef Cows Beg. Stocks	35	35	36	36	36
Production (Calf Crop)	2 470	2 604	2 460	2 590	2 590
Total Imports	3	3	3	3	3
Total Supply	6 899	7 033	6 967	7 239	7 363
Total Exports	2	2	3	3	3
Cow Slaughter	0	0	0	0	0
Calf Slaughter	0	0	0	0	0
Other Slaughter	2 343	2 336	2 232	2 416	2 510
Total Slaughter	2 343	2 336	2 232	2 416	2 510
Loss	50	49	52	50	50
Ending Inventories	4 504	4 646	4 680	4 770	4 800
Total Distribution	6 899	7 033	6 967	7 239	7 363
CY Imp. from U.S.	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0

*These are not USDA official numbers

Ukraine Beef and Veal PSD Table, 1,000 CWE (1,000 Head)*

Meat, Beef and Veal Ukraine	2012		2013		2014
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014
	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	2 343	2 336	2 232	2 416	2 510
Beginning Stocks	15	15	15	15	15
Production	365	389	350	420	440
Total Imports	5	5	6	5	5
Total Supply	385	409	371	440	460
Total Exports	23	23	23	27	26
Human Dom. Consumption	347	371	333	398	419
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	347	371	333	398	419
Ending Stocks	15	15	15	15	15
Total Distribution	385	409	371	440	460
CY Imp. from U.S.	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0

*These are not USDA official numbers

Ukraine Swine PSD Table (1,000 Head*)

Animal Numbers, Swine Ukraine	2012	2013	2014
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	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014
	USDA Official	New Post	USDA Official	New Post	New Post
Total Beginning Stocks	7 373	7 373	7 516	7 577	7 890
Sow Beginning Stocks	472	472	480	488	520
Production (Pig Crop)	7 400	8 538	7 500	9 163	9 580
Total Imports	225	225	250	200	180
Total Supply	14 998	16 136	15 266	16 940	17 650
Total Exports	1	1	1	0	0
Sow Slaughter	0	0	0	0	0
Other Slaughter	6 831	7 941	6 805	8 400	8 700
Total Slaughter	6 831	7 941	6 805	8 400	8 700
Loss	650	617	660	650	650
Ending Inventories	7 516	7 577	7 800	7 890	8 300
Total Distribution	14 998	16 136	15 266	16 940	17 650
CY Imp. from U.S.	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0

**These are not USDA official numbers*

Ukraine Pork PSD Table, 1,000 CWE (1,000 Head)*

Meat, Swine Ukraine	2012		2013		2014
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014
	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	6 831	7 941	6 805	8 400	8 700
Beginning Stocks	22	22	22	22	22
Production	600	701	600	790	820
Total Imports	281	281	200	220	212
Total Supply	903	1 004	822	1 032	1 032
Total Exports	29	29	25	4	20
Human Dom. Consumption	852	953	775	1 006	1 012
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	852	953	775	1 006	1 012
Ending Stocks	22	22	22	22	22
Total Distribution	903	1 004	822	1 032	1 032
CY Imp. from U.S.	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0

**These are not USDA official numbers*